

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

LIVINGSTON COMMUNITY
WATER AUTHORITY

REPORT ON AUDIT OF
FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005

LIVINGSTON COMMUNITY WATER AUTHORITY

WATER AUTHORITY BOARD

Mark St. Charles
William Palmer
H.E. "Bud" Prine
Cathy Doughty
Cindy Pine
Mike Bitondo
Susan Daugherty
Athena Willets

WATER AUTHORITY ATTORNEY

Neal D. Nielsen, P.C.

WATER AUTHORITY AUDITORS

Pfeffer, Hanniford & Palka
Certified Public Accountants

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PFEFFER ■ HANNIFORD ■ PALKA
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May 1, 2006

Livingston Community Water Authority Board
10001 Silver Lake Road
Brighton, Michigan 48116

INDEPENDENT AUDITORS' REPORT

Honorable Board of Trustees:

We have audited the accompanying financial statements of the Livingston Community Water Authority as of and for the year ended December 31, 2005. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on the audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Livingston Community Water Authority, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year end in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 6 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants

MANAGEMENT
DISCUSSION
AND
ANALYSIS

Management Discussion and Analysis December 31, 2005

Within this section of the Livingston Community Water Authority financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2005. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's financial statements. The financial statements include all the statements required by the Governmental Accounting Standards Board and the notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The Authority's annual reports include two Authority-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Activities which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

The Authority's financial reporting includes all the funds of the Authority (primary government) and, additionally, organizations for which the Authority is accountable (component units). Since the Authority's sole purpose is to operate and manage a water system, only one fund is maintained. Thus, there are no fund financial statements prepared by the Authority.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements.

Financial Analysis of the Authority as a Whole

The Authority's net assets at the end of the fiscal year were \$10,683,253. This is a \$96,887 decrease over last year's net assets of \$10,780,140.

The following tables provide a summary of the Authority's financial activities and changes in net assets:

Summary of Net Assets

	<u>12/31/2004</u>	<u>12/31/2005</u>
Current and other assets	\$ 77,673	\$ 137,592
Restricted assets	381,931	260,392
Capital assets, net	10,426,867	10,413,060
Total assets	<u>10,886,471</u>	<u>10,811,044</u>
Accounts payable	355	21,815
Due to member townships	105,976	105,976
Total liabilities	<u>106,331</u>	<u>127,791</u>
Net assets:		
Invested in capital assets	10,426,867	10,413,060
Unrestricted	353,273	270,193
Total net assets	<u>\$ 10,780,140</u>	<u>\$ 10,683,253</u>

Summary of Changes in Net Assets

	<u>12/31/2004</u>	<u>12/31/2005</u>
Operating revenues	<u>\$ 37,621</u>	<u>\$ 166,998</u>
Operating expenses		
System operations	281,321	345,179
Administrative	<u>16,927</u>	<u>42,807</u>
Total operating expenses	<u>298,248</u>	<u>387,986</u>
Operating (loss)	(260,627)	(220,988)
Non-operating revenues, net	<u>29,466</u>	<u>1,772</u>
Change in net assets before capital contributions	(231,161)	(219,216)
Capital contributions	<u></u>	<u>122,329</u>
Change in net assets	(231,161)	(96,887)
Beginning net assets	<u>11,011,301</u>	<u>10,780,140</u>
Ending net assets	<u><u>\$ 10,780,140</u></u>	<u><u>\$ 10,683,253</u></u>

The Authority incurred a large operating loss \$220,988 due to the system being relatively new, but incurring \$267,896 of depreciation.

Capital contributions totaled \$122,330 in the current fiscal year. This was due to the fact that the Saxony water system was transferred into the Authority from Green Oak Township.

Capital and Debt Administration

The Authority incurred \$6,254,089 of construction costs related to the completion of the water system. These construction costs were paid using the member township contributions received in the prior year.

The Authority itself does not have any long-term debt. However, the individual member townships have issued debt over the years to finance their portion of capital contributions that were required to form the Authority.

Economic Factors and Next Year's Goals

The population in the service area is expected to grow with new users being regularly added to the system. The system is relatively new, and expects major changes in its financial condition in the foreseeable future.

Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have further questions about this report or request additional information, please contact the Authority at 10001 Silver Lake Road, Brighton, Michigan 48116.

LIVINGSTON COMMUNITY WATER AUTHORITY
STATEMENT OF NET ASSETS
DECEMBER 31, 2005

ASSETS

CURRENT ASSETS- UNRESTRICTED

Cash	\$ 56,945
Accounts receivable - water	56,250
Accounts receivable - Green Oak utility	22,561
Accounts receivable - other	<u>1,836</u>

Total current assets- unrestricted \$ 137,592

CURRENT ASSETS (DESIGNATED)

Cash - construction	120,002
Cash - capital reserve	18,060
Cash - Saxony capital	<u>122,330</u>

Total current assets (designated) 260,392

CAPITAL ASSETS

Land	298,233
Well, building and distribution system	<u>10,714,413</u>
	11,012,646
Less accumulated depreciation	<u>(599,586)</u>

Net capital assets 10,413,060

Total assets 10,811,044

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 21,815
Notes payable - member townships	<u>105,976</u>

Total current liabilities 127,791

NET ASSETS

NET ASSETS

Invested in capital assets	\$ 10,413,060
Designated cash	260,392
Unrestricted	<u>9,801</u>

Total net assets \$ 10,683,253

The accompanying notes are an integral part of these financial statements.

LIVINGSTON COMMUNITY WATER AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005

OPERATING REVENUES	
Billings	<u>\$ 166,998</u>
OPERATING EXPENSES	
Deferred charges	15,447
Depreciation	267,896
Contracted labor - operators	15,644
Additional labor costs	802
Hydrant flushing	928
Meters and supplies	2,946
Miss Dig fees	6,943
Water tests	1,350
Repairs and maintenance - grounds and buildings	6,755
Repairs and maintenance - plant / lines / pumps	10,490
Permit fees	982
Utilities - electric	13,603
Utilities - gas	1,030
Telephone	<u>363</u>
Total operating expenses	<u>345,179</u>
ADMINISTRATIVE EXPENSES	
Per diems	4,350
Office supplies	560
Administrative fees/charges	6,134
Insurance	23,126
Consulting fees	87
Accounting and audit fees	<u>8,550</u>
Total administrative expenses	<u>42,807</u>
Total expenses	<u>387,986</u>
OPERATING (LOSS)	<u>(220,988)</u>
OTHER INCOME	
Interest	1,519
Miscellaneous income	<u>253</u>
Total other income	<u>1,772</u>
Net (loss) before capital contributions	(219,216)
CAPITAL CONTRIBUTIONS	
Residual transfer - Saxony system	<u>122,329</u>
Net (loss)	(96,887)
NET ASSETS, Beginning of year	<u>10,780,140</u>
NET ASSETS, End of year	<u>\$10,683,253</u>

The accompanying notes are an integral part of these financial statements.

PFEFFER, HANNIFORD & PALKA

Certified Public Accountants

LIVINGSTON COMMUNITY WATER AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005

CASH FLOWS FROM (USED-IN) OPERATING ACTIVITIES

Receipts from customers	\$ 104,268
Payments to vendors	<u>(98,377)</u>

Net cash from operating activities	5,891
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CASH FLOWS FROM (USED-IN) CAPITAL AND RELATED
FINANCING ACTIVITIES

Residual transfer - Saxony system	\$ 122,329
Acquisition of property, plant and equipment	<u>(254,089)</u>

Net cash (used in) capital and related financing activities	(131,760)
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CASH FLOWS FROM INVESTING ACTIVITIES

Interest on cash and cash equivalents	<u>1,519</u>
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(Decrease) in cash	(124,350)
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CASH AT JANUARY 1, 2005	<u>441,687</u>
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CASH AT DECEMBER 31, 2005	<u><u>\$ 317,337</u></u>
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RECONCILIATION OF OPERATING (LOSS)
TO NET CASH FROM (USED-IN) OPERATING ACTIVITIES

Operating (loss)	\$ (220,988)
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Adjustments to reconcile operating income to net cash from
(used in) operating activities

Miscellaneous income	\$ 253
Depreciation	267,896

Changes in assets and liabilities

(Increase) in accounts receivable - water billings/miscellaneous	(40,827)
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(Increase) in accounts receivable – member townships	(21,903)
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Increase in accounts payable	<u>21,460</u>
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Total adjustments	<u>226,879</u>
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Net cash from operating activities	<u><u>\$ 5,891</u></u>
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The accompanying notes are an integral part of these financial statements.

NOTES
TO
FINANCIAL
STATEMENTS

LIVINGSTON COMMUNITY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 1 - DESCRIPTION OF ENTITY AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity - The Livingston Community Water Authority was established on June 23, 2000, under Act No. 233, Public Acts of Michigan, 1955 as amended. The purpose of this Authority is to acquire, own, improve, enlarge, extend, operate, maintain, manage and administer water supply systems.

The financing of the water system has taken place at the township level. The related debt service funds are maintained in the financial statements of the three member townships.

The incorporating municipalities creating the Authority are Green Oak Township, Hamburg Township, and the Charter Township of Brighton, all in the County of Livingston. The Authority board is composed of two members from each of the incorporating municipalities who are voting members. The secretary and treasurer are non-voting members and are appointed by the six voting members.

Based on the criteria established by Government Accounting Standards Board (GASB) Statement Number 39, all funds, activities and agencies are included in the Authority's reporting entity.

Enterprise Funds - Enterprise funds are proprietary funds used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Basis Of Accounting - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

A. SIGNIFICANT ACCOUNTING POLICIES

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically an Enterprise Fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Authority's assets, liabilities, net assets, revenues, and expenses. Enterprise funds account for activities:

1. that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or
2. that are required by laws or regulations that the activity's costs of providing service, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar reviews; or
3. that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

LIVINGSTON COMMUNITY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 1 - DESCRIPTION OF ENTITY AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES (continued)**

B. MEASUREMENT FOCUS

The financial activities of the Authority are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with its operations are included on the statement of net assets; revenues are recorded when earned, and expenses are recorded when liabilities are incurred.

C. CASH AND CASH EQUIVALENTS

The Authority considers its deposits and restricted deposits and investments held with maturities of three months or less as cash equivalents.

D. CAPITAL ASSETS

Capital assets are stated at cost. Depreciation and amortization are computed using the straight-line method based on the estimated useful lives of the related assets, which range from 5 to 10 years for equipment and 10 to 40 years for buildings, structures, and improvements.

E. CONSTRUCTION-IN-PROGRESS

The costs of acquisition and construction of major plant and equipment is recorded as construction-in-progress. As facilities are accepted by the Authority and become operative, they are transferred to the facilities and improvements or machinery and equipment accounts and depreciated in accordance with the Authority's depreciation policies. Costs of construction projects that are discontinued are recorded as expense in the year in which the decision is made to discontinue such projects.

F. CAPITALIZATION OF INTEREST

A portion of the interest cost incurred on capital projects is capitalized as assets that require a period of time for construction or to otherwise prepare them for their intended use. Such amounts are amortized over the useful lives of the assets.

G. PREMIUM AND ISSUANCE COSTS

Bond discount, premium, and issuance costs are amortized over the term of the related bonds. No such bond discount/premiums or issuance costs were outstanding or issued during the year ended December 31, 2005.

H. INCOME TAXES

As a governmental agency, the Authority is exempt from both federal income taxes and Michigan Single Business Tax.

LIVINGSTON COMMUNITY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 1 - DESCRIPTION OF ENTITY AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES (continued)**

I. INVENTORY

The Authority values inventory at cost. The Authority had no inventory during the year ended December 31, 2005.

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 200,000	\$ 200,000
Uninsured and uncollateralized	<u>117,337</u>	<u>117,337</u>
Total deposits	<u>\$ 317,337</u>	<u>\$ 317,337</u>

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consist of regular quarterly billings and penalties. Each year, as of September 30, accounts receivable that are over 90 days old are placed on the tax roll for the applicable township. As of December 31, 2005, approximately \$22,284 of the outstanding \$56,250 accounts receivable went on the tax roll for collection. The Authority will receive the \$22,284 by March of 2006 through the tax collection process. The remaining accounts receivable of \$33,966 (\$56,250 - \$22,284) were under 90 days old as of December 31, 2005.

LIVINGSTON COMMUNITY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 4 – CAPITAL ASSETS

	<u>Balance 1-1-05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12-31-05</u>
Well, building and distribution system	\$ 10,460,324	\$ 254,089	\$	\$ 10,714,413
Land	<u>298,233</u>	<u></u>	<u></u>	<u>298,233</u>
Total	10,758,557	254,089		11,012,646
 Accumulated depreciation	 <u>(331,690)</u>	 <u>(267,896)</u>	 <u></u>	 <u>(599,586)</u>
 Net book value	 <u>\$ 10,426,867</u>	 <u>\$ (13,807)</u>	 <u>\$</u>	 <u>\$ 10,413,060</u>

There is no debt held by the Authority for these capital assets. Any debt related to the construction of the original distribution system is being held by the member Townships.

Depreciation expense related to the portion of property, plant and equipment is recorded as a current expense in these financial statements. The member townships have paid the Authority their respective portion of costs related to the construction of the water system. These payments to the Authority are recorded as revenues by the Authority in the year they are received.

Depreciation is recorded on the straight-line basis over the estimated useful life of the asset.

LIVINGSTON COMMUNITY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 5 - STATEMENT OF CASH FLOWS

Pursuant to Governmental Accounting Standards Board (GASB) statement number 9, a statement of cash flows is presented. The purpose of the statement of cash flows is to explain the change in cash and cash equivalents during the year.

Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less. The direct method was utilized to present cash flows from operations. The following is a summary of beginning and ending cash and cash equivalents:

	<u>12-31-04</u>	<u>12-31-05</u>
Cash - undesignated	\$ 59,756	\$ 56,945
Cash - designated	<u>381,931</u>	<u>260,392</u>
Total cash	<u>\$ 441,687</u>	<u>\$ 317,337</u>

NOTE 6 - ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 7 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority.

NOTE 8 - SEGMENT INFORMATION

Selected financial information is as follows:

Operating revenue	\$ 166,998
Depreciation	267,896
Total assets	10,811,044
Total net assets	10,683,253
Change in net assets	(96,887)



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Brighton, Michigan 48116-1575
(810) 229-5550
FAX (810) 229-5578

May 1, 2006

Board Members

Livingston Community Water Authority
10001 Silver Lake Road
Brighton, Michigan 48116

Dear Honorable Board Members:

During our audit of the Livingston Community Water Authority we came across some items we would like to discuss with you as part of our audit presentation for the year ending December 31, 2005.

1. Green Oak Township is handling the administration of meter sales. The Township collects the meter proceeds and issues the meter to the customer. The proceeds include monies to pay for MXU units and the costs of installing the MXU. The contractor installing the MXU unit invoices the Authority for its labor.

Since the meter sales proceeds are receipted into the Township's funds, the Township should reimburse the Authority for the costs of installing the MXU units. Going forward, the Township and Authority should request the contractor to invoice the Township for installations and not the Authority.

2. Currently, the individual responsible for doing the quarterly billings works in the Treasurer's office at Green Oak Township. This same individual collects monies related to billings and does all postings to the billing - accounts receivable system.

We realize the Authority is currently very small in regards to its customer base. However, the Authority will grow significantly over the next few years. To enhance internal controls we suggest consideration be given to segregating these responsibilities to two (2) employees instead of only one (1) employee.

3. The Authority has budgeted for transfers to reserves in its operating fund. In 2005 the amount budgeted was \$18,044 and was based on the original rate study provided by the engineers. In 2006 the amount budgeted was \$24,165 which was estimated.

The Authority is now bringing on existing water systems which are connecting to the Livingston County Water Authority System. Therefore, it will be the Authority's responsibility to pay for all future replacements and repairs for the existing water systems. We believe it would be in the Authority's best interest to consider an asset management report be compiled by an engineering firm. The report should show all infrastructure, replacement values, replacement dates, etc... This would give the Board a better idea of an amount that should be put into reserves annually to be prepared for future replacements.

We would like to thank the officials and employees that assisted us during the audit process.

If you should have any questions, comments or concerns please do not hesitate to call us.

This letter is intended solely for the information and use of the Board and management of the Authority and is not intended to be and should not be used by anyone other than the specified parties.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants